Flexible valuations for consumer goods as measured by the Becker-DeGroot-Marschak mechanism

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Abstract

This paper experimentally investigates whether valuations elicited by the commonly used Becker-DeGroot-Marschak procedure depend on the distribution of prices used in the elicitation mechanism. To answer this question we created a novel within-subject design that allowed us to observe an individual's bid for a given product repeatedly, while varying the price distribution. Our data clearly show that subjects do not bid constantly the same amount for each good on each offer, as would be predicted by expected utility theory. Instead, they bid higher when a high price occurs with high probability, than when a low price is highly likely. This effect persists over several rounds where subjects repeatedly bid on the same goods. The observed flexible valuations are at odds with expected utility maximization and the pattern of distributional dependence is not in line with predictions of anchoring, or theories of reference dependent preferences.